

Structural convergence versus systems competition: the case of social policies in EMU

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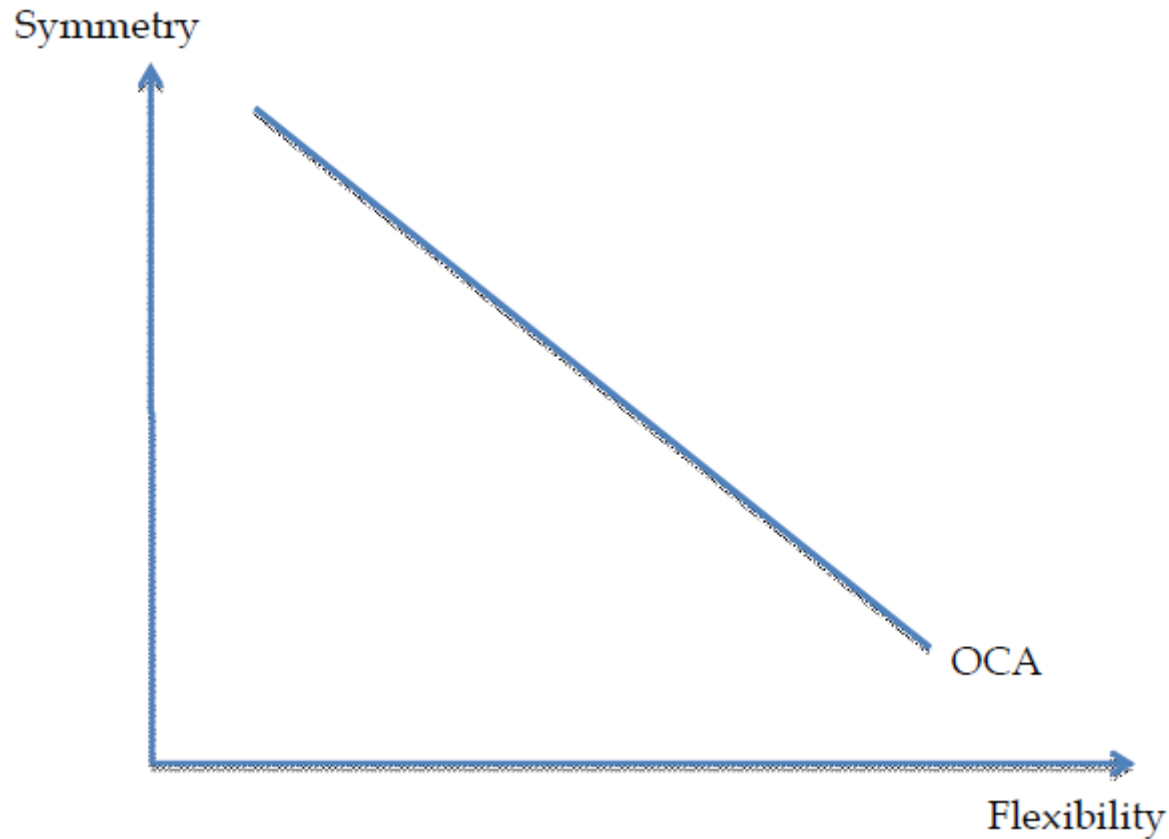
Questions

- What is the extent of 'social diversity' (diversity in social models) that can be accommodated in EMU?
- Why a '*Eurozone* Pillar of Social Rights'?

Arguments for 'structural social convergence' vs. 'social systems competition'

- i. Requirements w.r.t. economic symmetry in a monetary union
- ii. Requirements w.r.t. labour market flexibility and worker mobility in a monetary union;
- iii. Consequences of risk-sharing solutions in the context of a monetary union;
- iv. Externalities of national policies in the context of a monetary union;
- v. Subsidiarity and the national/regional/local capacity for policy innovation;
- vi. The need for mutual trust between Member States

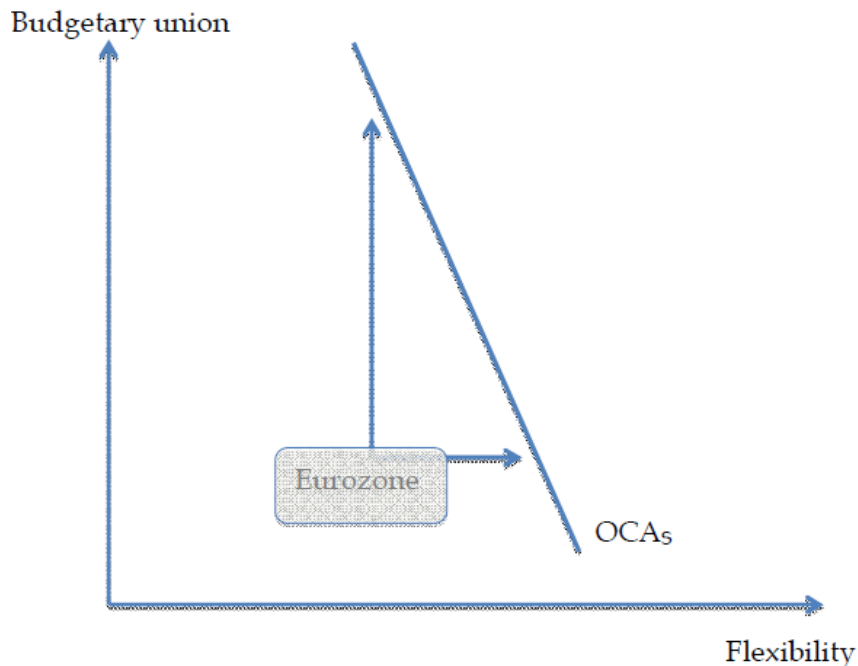
OCA: textbook theory on trade-off 'symmetry' / 'flexibility'



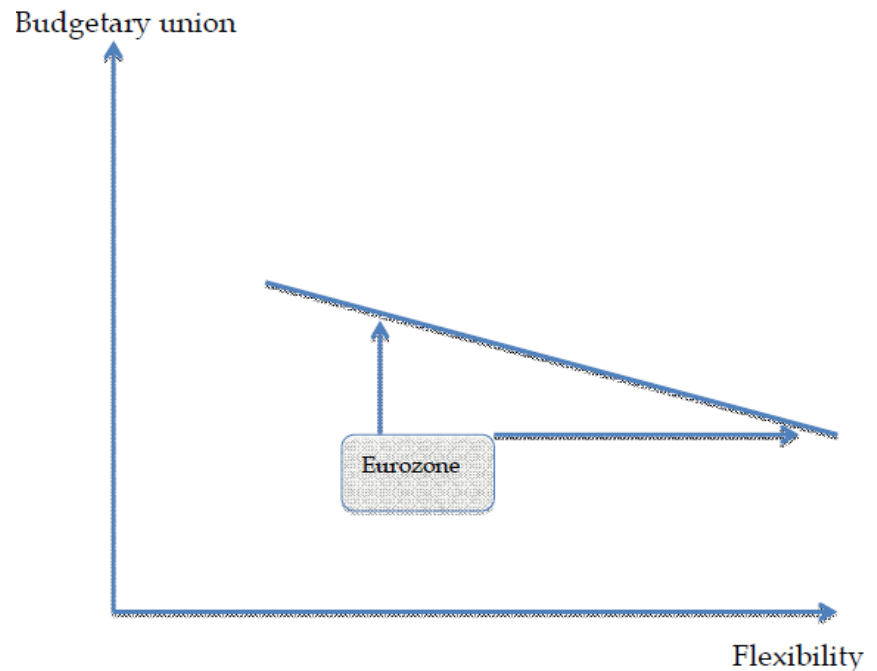
De Grauwe and Ji, *Flexibility and Stability. A difficult trade-off in the Eurozone*, CEPS Working Document 422, April 2016

Permanent shocks or business cycle movements?

Permanent shocks dominate



Business cycle dominates

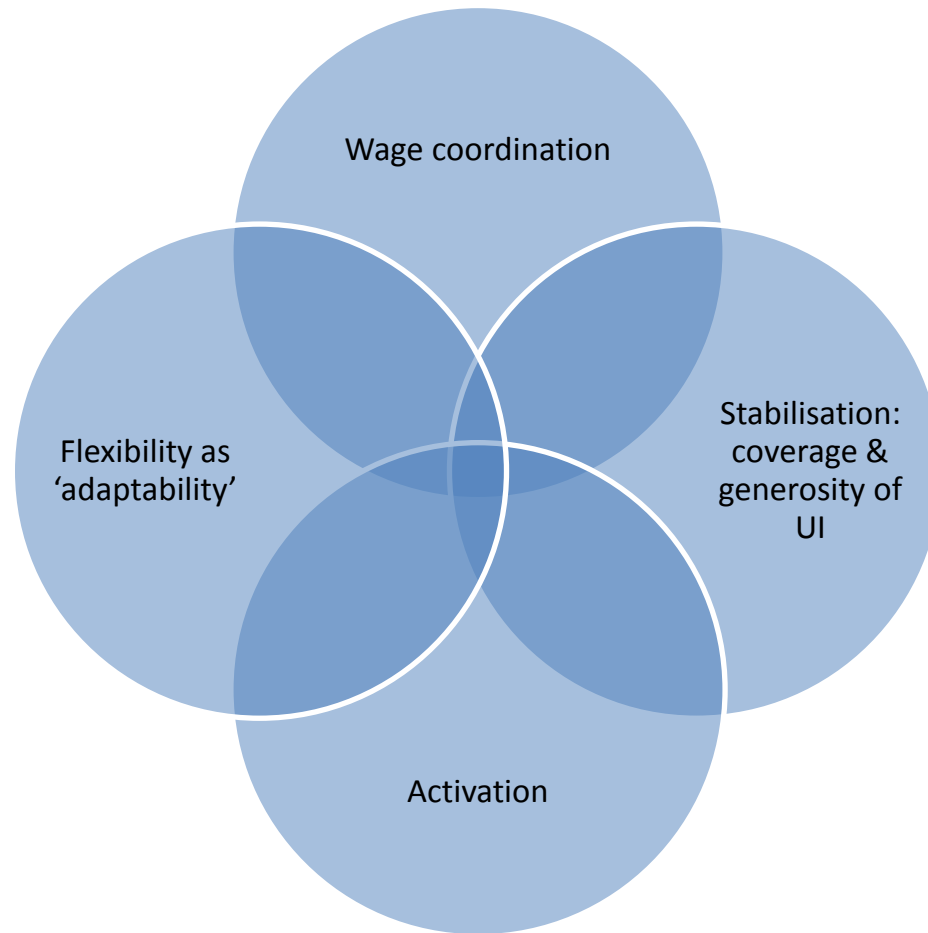


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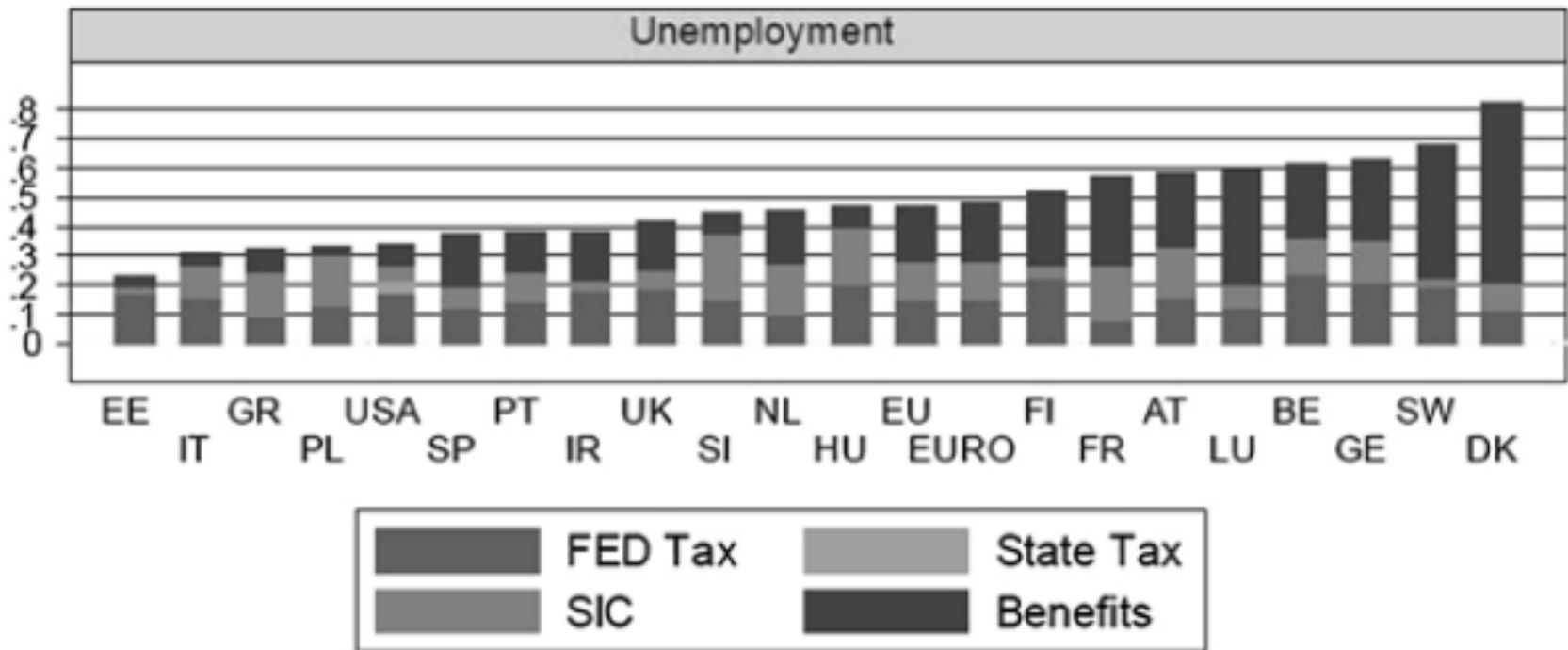
The need for social convergence

- Structural social convergence linked to requirements of symmetry
 - Coordination of wage policies & capacity to deliver
- Structural social convergence linked to risk-sharing (to mitigate institutional moral hazard in the case of risk-sharing):
 - Minimum requirements w.r.t. 'stabilisation quality' of unemployment regulation;
 - Minimum requirements w.r.t. 'activation quality' of unemployment regulation.
- Structural social convergence linked to flexibility as 'adaptability' to permanent shocks

Limits to social diversity (yet, no social 'one-size-fits-all')



Income stabilisation in case of unemployment shock



Dolls, Fuest, Peichl, *Automatic Stabilisation and Discretionary Fiscal Policy in the financial crisis*, 2012.